

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2001-164-W/S - ORDER NO. 2002-285

APRIL 18, 2002

IN RE: Application of Kiawah Island Utility, Inc. for) ORDER APPROVING
Approval of a New Schedule of Rates and) RATES AND CHARGES
Charges for Water and Sewer Service.)

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed on behalf of Kiawah Island Utility, Inc. (the Company or Kiawah) for approval of a new schedule of rates and charges for its water and sewer customers on Kiawah Island in Charleston County, South Carolina. The Company's Application was filed pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2001), as amended, and R. 103-821 of the Commission's Rules of Practice and Procedure.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges.

Petitions to Intervene were filed by the Kiawah Property Owners Group (KPOG), the Town of Kiawah Island, the Cougar Point Golf Company, the Kiawah Island Inn

Company, the Kiawah Real Estate Company, the Kiawah Tennis Club, the Night Heron Park Company, the Osprey Point Golf Company, the Ocean Course Golf Club, the Turtle Point Golf Company, and the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

The Commission Staff (the Staff) made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The other parties likewise conducted their discovery with regard to the rate filing of Kiawah.

A public hearing relative to the matters asserted in the Company's Application was held on March 13, 2002 at 10:30 AM in the Hearing Room of the Commission at 101 Executive Center Drive, Columbia, South Carolina. Pursuant to S.C. Code Ann. Section 58-3-95 (Supp. 2001), a panel of three Commissioners composed of Commissioners Saunders, Mitchell, and Clyburn was designated to hear and rule on this matter. Chairman Saunders presided. G. Trenholm Walker, Esquire represented the Company. Michael A. Molony, Esquire, represented the Intervenors, the Kiawah Property Owners Group, the Town of Kiawah Island, the Cougar Point Golf Company, the Kiawah Island Inn Company, the Kiawah Real Estate Company, the Kiawah Tennis Club, the Night Heron Park Company, the Osprey Point Golf Company, The Ocean Course Golf Club, and the Turtle Point Golf Company. The Consumer Advocate for the State of South Carolina (the Consumer Advocate) was represented by Charles M. Knight, Esquire. The Commission Staff was represented by F. David Butler, General Counsel.

The Company presented the testimony of Becky Dennis, Townsend P. Clarkson, John F. Guastella, and Gary C. White. The Intervenor, Town of Kiawah Island, presented the testimony of James V. Piet and Russell A. Hissom. The Golf Company Intervenor presented the testimony of Walter T. Cuthbert. The Staff presented the testimony of Sharon G. Scott and William O. Richardson.

FINDINGS OF FACT

1. The Company is a water and sewer utility operating in the State of South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 (1976) et seq. Kiawah Island Utility, Inc. is owned by Kiawah Resort Associates, L.P. (KRA).

2. As of year-end 2000, the Company provided water service to 3,151 residential and commercial customers and sewer service to 2,764 residential and commercial customers on Kiawah Island, Charleston County, South Carolina. (Testimony of Becky Dennis)

3. The Company purchases its water from St. John's Water Company, Inc. The Company has three ground level storage tanks with a capacity of 4.5 million gallons, along with support equipment for the pumping and metering of the water supply and distribution system. The Company's sewer system is comprised of gravity collection mains, force mains, and treated effluent transfer mains, aggregating approximately 58 miles, 40 sewage pumping stations, and a wastewater treatment facility.

4. The Company's present rates and charges were approved by Order No. 1999-216, in Docket No. 98-328-W/S, dated March 31, 1999.

5. At present, the Company has seven rate schedules relating to its water and sewer charges and other miscellaneous service charges. The Company's residential water service charge is \$22.40 per month for a minimum bill of 0 to 2,000 gallons. All water consumed over 2,000 gallons per month and up to 11,000 gallons per month is billed at a rate of \$2.10 per 1,000 gallons. All water over 11,000 gallons per month and up to 50,000 gallons per month is billed at the rate of \$2.20 per thousand gallons. All consumption over 50,000 gallons is billed at the rate of \$2.41 per thousand gallons. The Company's residential sewer service charges are a basic facilities charge of \$18.00 per month, and a consumption charge based on water usage up to 11,000 gallons per month of \$.47/1000 gallons. The Company's tap fees are \$500 for both water and sewer for residential customers with a 5/8 inch meter. Tap fees and Basic Facility charges are based on meter size for residential customers and other classes of customers.

The Company's present rates and proposed rates are depicted in Hearing Exhibit No. 6, Exhibit 1 of the Water and Wastewater Department's exhibits in the Commission Staff Report. In lieu of discussing all proposed changes in the Company's rate schedules, the Commission will highlight the changes requested. Under the Company's proposal, the basic facilities charge for potable water for residential customers would no longer cover 2,000 gallons per month of consumption. All potable water consumed would be subject to the consumption charges. The basic facilities charges for the three sources of irrigation for the five golf courses would be established on a per course basis. The proposed rates and charges include a new category of customers, known as Standby Customers. These are golf course customers who may have another source of water and may not need the

Company to supply its needs on a continuous basis. The standby charge would also allow the golf course to effectively reserve a certain volume of capacity from the Company. The Company is also requesting that the Commission grant it a pass through increase mechanism for increases in the cost of wholesale potable water charged by its sole supplier, St. John's Water Company. Additionally, Kiawah would be able to pass through increases in the operation and maintenance expense charged by St. John's to the Company. The Company would have to provide advance notice of the increase to the Commission which could prevent implementation of the increase if it found any irregularities. Lastly, Kiawah has proposed slight modifications to the wording of the miscellaneous charges provisions of the Schedule. The Company has also proposed various changes in its other schedules.

6. The Company asserts that its requested rate increase is required because of several reasons. First, according to Company witness Clarkson, Kiawah has incurred increased costs associated with purchased water from St. John's Water Company. Since 1997, these costs have increased by 15.3%. The Company also pays a pro-rata share of St. John's operation and maintenance charges. Clarkson notes that since the last rate application, this monthly charge has increased 68.9% from \$5,887 to \$9,944. During 2001, this monthly charge has increased from \$8,532 to \$9,944, an increase of 16.6%. Since Kiawah's last rate case, there have been several capital projects. The Company's facilities have increased by \$746,000 for the Aquifer Storage Recovery System installed in 2000, and \$45,000 for the SCADA system installed in 1998. Subsequent to the end of the 2000 test year, there have been approximately \$150,000 of additional water and sewer

capital expenditures and extraordinary maintenance projects which will impact the Company's rate base. These projects include the rebuilding of the Surfwatch sewage pump station, replacing deteriorated hand wheels on the control structures, and rehabilitation of the headworks at the waste treatment facility. In addition, Clarkson notes that the Company must pay for capital cost, improvements and maintenance of the 45 miles of transmission lines and related delivery facilities of St. John's on Johns Island. The utility pays according to its total percentage usage of the total potable water available at the delivery point. This share is currently 60 percent. Testimony of Clarkson at 3-4.

7. The Company proposes that the appropriate test period to consider its requested increase is the twelve-month period ending December 31, 2000. The Staff concurred in using the same test year for its accounting and pro forma adjustments. The Intervenors did not contest the test year.

8. The Company seeks an increase in its rates and charges for water and sewer service which would result in an operating margin of 17.37%. Hearing Exhibit 5, Audit Exhibit A.

9. Under the Company's presently approved rates, the Company's operating revenues, after accounting and pro forma adjustments are \$3,919,244. The Company seeks an increase in its rates and charges for water and sewer service in a manner which would increase its operating revenues by \$1,139,180. Hearing Exhibit 5, Audit Exhibit A. The Commission approved a reduction in revenue of (\$101,217) for the loss of two golf course customers. Revenue under presently approved rates totals \$3,818,027 after such reduction.

10. Under its presently approved rates, the Company's total operating expenses for the test year, after accounting and pro forma adjustments, are \$3,289,792. The Company and the Staff all proposed certain adjustments to the Company's books and records. Hearing Exhibit 5, Audit Exhibit A. The Commission allowed an additional rate case expense adjustment in the amount of \$14,569. Gross receipts taxes and income taxes associated with additional rate case expenses and the lost golf course revenues were also adjusted. Total operating expenses for the test year totaled \$3,260,462 after such adjustments were made.

11. Under its present rates, the Company's net operating income is \$629,452. Applying customer growth of \$13,128, the Company's total operating income is \$642,580. After considering interest of \$486,572, an operating margin of 3.98% results. Hearing Exhibit 5, Audit Exhibit A. The net operating income under present rates is \$557,565, customer growth is \$11,424, and total operating income is \$568,989 after adjusting for additional rate case expenses and the loss of two golf courses' revenues. The operating margin is 2.16%.

12. The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

13. A fair operating margin that the Company should have the opportunity to earn is 10.75%, which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

14. This operating margin is produced through additional revenues of \$622,000, for a total revenue under the new rates of \$4,440,027. The Commission approves \$235,256 in additional expenses, for a total of \$3,495,718. Net Operating Income of \$944,309 is then produced. Applying customer growth of \$19,714, Net Operating Income is \$964,023. Interest to be considered for the operating margin is \$486,572.

15. The rate designs and rate schedules approved by the Commission as described herein are appropriate and should be adopted.

16. The rates and charges depicted in Appendix A, attached hereto and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF

FACT NOS. 1, 2, 3 AND 4.

The evidence supporting these findings concerning the Company's business and legal status, number of customers, water purchasing practices, and the Company's last rate increase are contained in the testimony of the witnesses, the Company's Application, and in prior Commission Orders in the docket files of which the Commission takes judicial notice. The Company is a water and sewer utility under S.C. Code Ann. Section 58-5-10 and is providing water and sewer service in its approved service area in Charleston County, South Carolina. The Company's operations are subject to the jurisdiction of this Commission. These findings of fact are essentially informational,

procedural, and jurisdictional in nature, and the matters that they involve are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF
FACT NOS. 5 AND 6

The evidence supporting these findings of fact is included in the Company's Application and Company testimony presented at the hearing. Many of the matters contained therein were contested by the parties, and more discussion will appear infra thereon.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF
FACT NO. 7

The evidence for this finding concerning the appropriate test period is contained in the Company's Application and in the testimony and exhibits of the Company witnesses, the witnesses for the intervenors, and the Staff's witnesses. The Company proposed in its Application that the appropriate test year by which to consider the requested rate increase was the twelve month period ending December 31, 2000, and based the filing on that time period. Relying on the Company's proposed test year, the Staff witness utilized the same test period for their accounting and pro forma adjustments.

A fundamental principle of the ratemaking process is the establishment of a historical test year period. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test-year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations

which occurred in the test year. See Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E. 2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E. 2d 278 (1978). Based on the record, the Commission finds the twelve month period ending December 31, 2000, to be the reasonable and appropriate period for which to make its ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDING OF

FACT NO. 8

The evidence supporting these findings of fact is included in the testimony and exhibits of the Commission Staff presented at the hearing, more of which will be discussed below.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF

FACT NOS. 9, 10, AND 11

The Commission believes that the Company should receive an additional \$622,000 in revenue in this case, based on the evidence as described below. (The discussion below largely comes from the testimony of Staff witness Scott and Company witnesses Guastella and White, with some portions from Company witnesses Clarkson and Dennis, and Staff witness Richardson. KPOG proposals are addressed separately in this Order.)

With regard to adjustments to operating revenue and expenses, the Commission would discuss the following:

(A) DHEC Fees

Both Staff and the Company removed the Department of Health and Environmental Control required recoupment fees from revenues. Staff audit witness Sharon Scott noted that such fees are billed to the Company's customers as a separate line item on a customer's bill, and are intended to recover the cost of certain water testing functions required by State law. Accordingly, Staff proposed removal of (\$7,776) in expenses and both Staff and Company proposed removal of (\$7,809) in revenues associated with such fees, since such fees are recovered by the Company through charges that are not regulated by this Commission. We accept these adjustments.

(B) Non-allowables

Scott testified that Staff found, during the audit, certain expenses paid that Staff would disallow for ratemaking purposes. These included a donation to a hospital of \$50, flowers for \$483, and one-half of Chamber of Commerce dues of \$215, for a total combined adjustment of (\$748). These items are normally not allowed as legitimate ratemaking expenses, and Staff did not believe that they qualified as legitimate expenses in this proceeding. We accept Staff's adjustment.

(C) Management Fees

A major adjustment was proposed by Staff on management fees. The Company has an agreement with its parent company, Kiawah Resort Associates, L.P., (KRA), in which KRA provides the utility certain management services. The Company had booked expenses of \$100,000 in management fees during the test year. The Staff's proposed adjustment lowered management fee expenses by (\$64,000). The Staff's adjustment is the

same as it was in the Company's last rate case. See Docket No. 98-328-W/S, Order No. 1999-216. The Order in that case gave a number of reasons for limiting the fee to \$36,000, including possible duplication of services provided by the parent and the direct costs incurred by the Company, lack of a sufficient way of gauging participation by the partners and/or directors of the parent, and lack of proof of the overall reasonableness of the entire fee. The Staff has the same concerns in this case. The management services agreement is the same agreement that was in effect during the previous case. Some of the services mentioned in the agreement appear to be of the type that a manager would perform. The utility company already has a manager on the payroll. The Staff still had difficulty gauging participation of the partners and/or directors of KRA in the affairs of the utility. No minutes of any partner meetings were available for review. The Staff believes that \$36,000 in expenses for management fees is appropriate in this case. The Staff examined time records, payroll records, and documentation of employee benefits in verifying direct labor costs that are associated with management fees. Such direct labor costs totaled \$35,489. Staff allowed \$511 for overhead expenses. Therefore, a management fee of \$36,000 should be used for this case, according to Staff.

Company witness Guastella found the Company's proposed management fee reasonable. He states that this covers the typical administrative and general services necessary for the proper conduct of a utility business. Guastella states that this management fee is "modest." Even so, after a complete analysis, we adopt Staff's adjustment. Again, the Company has a manager on payroll, and it was difficult to gauge the participation of the partners and/or directors of KRA in the utility. The South

Carolina Supreme Court has stated the standard by which such transactions are measured in Hilton Head Plantation Utilities v. The Public Service Commission of South Carolina. The Court states that charges arising out of intercompany relationships between affiliated companies should be scrutinized with care, and if there is an absence of data and information from which the reasonableness and propriety of the services rendered and the reasonable cost of rendering such services cannot be ascertained by the Commission, allowance is properly refused. Accordingly, Staff's analysis is the appropriate one, and we adopt it, since there remains an absence of data and information from which the reasonableness and propriety of the services rendered can be completely ascertained. Our refusal to grant the entire management fee is thus justified.

(D) Purchased Water

With regard to Staff's adjustment for purchased water, the Company purchases its water from St. John's Water Company, Inc. St. John's purchases its water from the Commissioners of Public Works (CPW) of the City of Charleston, South Carolina. The Company proposes to adjust purchased water for annualized system flow demand. The Company used a projected number of 835,983 for total gallons and the rate per gallon of \$1.8107 for total costs of \$1,513,714. To this amount, the Company added Operating and Maintenance Expenses of \$119,326 for a total of \$1,633,040, less the per book amount of \$1,613,441 for an adjustment of \$19,599. Staff's testimony was that the Company's adjustment is based on estimated growth in gallons and Staff did not accept this particular adjustment. However, the Staff computed growth in both revenue and expenses by applying a growth factor to net operating income. Staff opined that the customer growth

adjustment covers growth for the increased amount of purchased water. We agree with the Staff. We believe that the Company's adjustment was indeed based on estimated growth in gallons, and that Staff's customer growth adjustment covers growth for the increased amount of purchased water, and for purchased power and chemical costs proposed by the Company as well, which were also based on estimated figures. We adopt Staff's adjustments in both cases.

We would also note that the Company requests that it be allowed to pass through any increases in its water costs from St. Johns straight to its customers, including purchased water costs and maintenance costs. Company witness Clarkson states a belief that this passthrough would eliminate the need to return to the Commission with rate applications as frequently as it must do now. Clarkson notes that almost every year, St. Johns has increased the cost of the potable water sold to the Company. This increase has a dramatic effect on the Company's bottom line. Kiawah is then forced to seek an adjustment in rates to account for this significant increase in expense. With the passthrough mechanism as proposed by the Company, the potable rate to the customers could be adjusted, with Commission oversight, on a timely basis and eliminate the immediate need for a rate application to compensate for this expense. We grant the passthrough mechanism for water costs, however, we deny the passthrough mechanism for maintenance costs associated with purchased water, since they are generally reviewed in the context of a rate case. Further, we believe that the Company should submit its proposed adjustment for study at least 60 days in advance of its time to originate the new

charge. The Commission would then have the ability to analyze the increase prior to it going into effect, and could reject it if any irregularities are found.

(E) Ocean Course Drive Extension

The Commission first approved the Ocean Course Drive extension adjustment in Order No. 92-1030, Docket No. 92-192-W/S. That Order explained that the adjustment “allows the Company to collect the costs of the Ocean Course Extension over time as the area builds out, as well as depreciate the asset as it is used.” The Staff calculated the amount to be included for Ocean Course in the same manner as was used in previous cases. The Staff determined the maximum number of taps for the area to be 410. There are currently 106 existing taps, which equates to an actual capacity rate of 25.85%. The Staff divided the actual capacity rate by the system capacity factor of 75% to determine a system equivalent capacity factor of 34.47%. The original cost of the Ocean Course facility is \$381,564. The Staff computed allowable plant as of the end of the test year to be \$131,531 by applying the system equivalent capacity factor to the original cost of the plant ($\$381,564 \times 34.4715\%$). The Staff computed the annual growth factor to be 3.447%. The growth factor was used to determine allowable plant between test years of \$13,153 per year. ($\$381,564 \times 3.447\%$). The Staff used three years between test years to determine total allowable plant for this case of \$170,990. The Staff removed plant of (\$210,574), accumulated depreciation of \$65,232 and depreciation expenses of (\$4,683). We adopt Staff’s adjustments as logical and reject testimony to the contrary.

(F) Extraordinary Repair and Maintenance Expenses

The Staff and Company propose to record the amortization of extraordinary repairs and maintenance costs for the test year. These amortizations were established in Docket Nos. 96-138-W/S and 98-328-W/S. The Staff's adjustment includes the amortizations for refurbishment of a well pump totaling \$4,601, a supply line repair totaling \$7,950, tank painting in the amount of \$13,684, and sludge removal of \$27,400, for a total of \$53,635. The Company proposed an amortization for estimated 2002 amortizations, including tank painting of \$6,869, pressure washing tanks of \$2,929, and sludge removal of \$11,528, plus \$45,031 from Docket No. 98-328, for a total adjustment of \$66,357. We grant Staff's adjustment, based on actual amounts. We deny the Company's adjustments, since they are based on estimates. The Company also proposes to include the unamortized balance for these deferred expenses of \$147,242 in rate base. Staff did not include deferred expenses in rate base. Staff states that such deferred expenses are not an investment, and that they represent maintenance expenses that have been deferred from previous cases. We agree with Staff in this case and therefore reject this portion of the Company's adjustment.

(G) Engineering and Related Services

Staff proposes to capitalize \$39,102 for engineering and related services in connection with the supplemental water supply study, the new Charleston line, and the Reverse Osmosis option. This amount was expensed in the test year. Staff proposes to include depreciation expense of \$978 based on a 40-year service life recommended by the Commission's Utilities Department. The cost of the study is therefore capitalized

along with the related plant. We believe capitalization of these expenses in this manner is appropriate, and we accept Staff's adjustment.

(H) Consulting Fees

The Staff proposes to normalize the test year by amortizing consulting fees over a three-year period. Staff amortized \$4,732 for an expert witness to testify before the Commission concerning the aquifer storage recovery project and \$2,503 for consultation on the Cost of Service Study and Compensation analysis. The total amount of \$7,235 amortized over three years amounts to \$2,412 per year. Staff subtracted the per book amount of \$7,235 from \$2,412 for a total adjustment of (\$4,823). We adopt Staff's adjustment as being consistent with good regulatory accounting practices.

(I) Availability Fees

The Staff proposes to remove availability fees collected through December 31, 1991 from rate base. Such fees are considered a contribution in aid of construction. Staff also removed the depreciation expense associated with these availability fees. A (\$1,512,920) adjustment was therefore made to rate base, and (\$33,284) was removed from depreciation expense. Staff's adjustments are appropriate in this case to properly adjust the rate base of the Company. It should be noted that Staff's adjustment removes availability fees collected through December 31, 1991. These are not the same costs for donated lines referred to by Company witness Clarkson in his rebuttal testimony in the amount of \$1,517,650 for the period of 1992 through October 1996. The Staff removed pre-1992 availability fees totaling \$1,512,920 as a contribution in aid of construction in relation to plant transferred to the Company by the parent company.

(J) Labor

Both Staff and Company propose to adjust labor to reflect the annual wage increases, adjust for a new employee, and adjust for labor associated cost relative to the labor increase, which includes FICA, pension, health and life insurance, other benefits, and worker's compensation. The Staff's adjustment includes the latest available wage information. The wage adjustment includes increases which were effective January, 2001 and August, 2001. Staff used the payroll at February 9, 2002 to compute annualized gross pay of \$362,378. Staff subtracted the per book amount of \$365,555 for an adjustment of (\$3,177). The Company's adjustment of \$34,134 to annualize wages includes the salaries of one retired employee and one terminated employee. The Company also proposes to increase wages by \$16,640 for a new employee. The Company's combined proposed wage adjustment is \$50,774. Staff did not include wages for the field employee referred to in the rebuttal testimony of Ms. Dennis. The expenses were not known and measurable, because the employee had not yet been hired. We reject the Company's adjustment and adopt Staff's. We do not agree that wage figures ought to include employees that retired or terminated, and applicants not yet hired by the Company.

(K) Legal Fees

During its audit of the Company's books, Staff examined the Company's legal expenses and found several expenses that should be amortized to present a normalized test year. These expenses include the KPOG appeal expense of \$1,926, and rate case appeals related to the 1998 rate case of \$6,369, for a total of \$8,295. Staff amortized these expenses over three (3) years for the total allowed expense of \$2,765 less the per book

amount of \$8,296 for an adjustment of (\$5,531). Staff also found loan modification legal fees of \$6,259 which should be amortized over the five (5) year loan period. The allowed expense would be \$1,252 less the per book amount of \$6,259 for an adjustment of (\$5,007). The Staff's total adjustment to legal expenses amounts to (\$10,538). This adjustment is based on sound regulatory accounting principles, and we therefore adopt the adjustment.

(L) Rate Case Expenses

Both Staff and Company propose to amortize current rate case expenses over three (3) years. Staff used actual rate case expenses of \$62,027 amortized over three (3) years for a total adjustment of \$20,676. At the hearing, the Company produced documentation of an additional \$43,707 in rate case expenses. Amortized over three (3) years, this yields an additional adjustment of \$14,569. Staff's total rate case expenses are \$105,735. Amortization over three (3) years yields a final Staff adjustment of \$35,245. Therefore, we adopt Staff's final adjustment. The Company also proposes to include the unamortized balance of rate case expenses in rate base. Staff states that these deferred charges are not considered used and useful plant investments, and therefore disagrees with the Company's proposal in this regard. We agree with Staff's reasoning, and deny the Company's proposal.

(M) Bad Debt Expense

The Staff examined bad debt expense during the audit and found that the expense for the test year had increased considerably over the previous years. Staff proposes to normalize the test year by amortizing these expenses over two (2) years. During the test

year, the Company claimed as bad debts, the Osprey Golf late fees of \$6,307 and several old accounts and late fees of \$2,135 for a total of \$8,442. These debts were incurred over a 2-year period. Staff amortized the total bad debts of \$8,442 over two (2) years for the test year allowed amount of \$4,221 less the per book amount of \$8,442 for a total adjustment of (\$4,221). Since normalization of expenses is a necessary goal of regulatory accounting, we adopt Staff's adjustment.

(N) Depreciation

Both Staff and the Company propose to annualize depreciation expense based on plant in service at December 31, 2000. Staff examined and recalculated the Company's per book depreciation expense. For the test year plant additions, the Company booked a half year of depreciation expense. Staff's adjustment included a full year of depreciation expense for these plant accounts amounting to \$16,507. Several accounts were fully depreciated at the end of the test year. Staff removed depreciation expense of \$11,129 associated with such fully depreciated items. Therefore, Staff reduced annualized depreciation expense of \$16,507 by \$11,129 for a net adjustment of \$5,378. A resulting adjustment of (\$5,378) is made to Accumulated Depreciation. The Company annualized group (not line item) depreciation for a total adjustment of \$61,682. For this Company, group depreciation represents a change in depreciation methods which has not been approved by this Commission. The Company adjusted accumulated depreciation by a total of (\$461,349). The Company adjusted accumulated depreciation by its total annualized depreciation expense instead of its depreciation expense adjustment of \$61,682.

Since we have not had the opportunity to approve group depreciation, we reject the Company's adjustment at this point and adopt Staff's adjustment. See testimony of Staff witness Richardson. The Company may come back to this Commission at some point and attempt to demonstrate the validity of its group depreciation methods and we will consider the method in future rate cases, if appropriate.

(O) Loan Renewal Fees

Both Staff and Company propose to remove the amortization of loan renewal fees of (\$8,326) as an above the line expense. However, the Staff reduced the loan proceeds by the total prepaid loan renewal fees of \$41,606 when computing the cost of debt. Total debt at December 31, 2001 amounted to \$6,980,723 less loan renewal fees of \$41,606, resulting in debt of \$6,939,117. The computed interest expense at December 31, 2001, amounted to \$564,123. The cost of debt is 8.13% ($\$564,123 / \$6,939,117$). We adopt Staff's proposal.

(P) Cash Working Capital

Staff adjusted cash working capital for items that correct the books. This has the effect of keeping cash working capital on a per book basis. Cash working capital was computed by Staff using one-eighth of operating and maintenance expenses as seen in Hearing Exhibit 5, Exhibit A-3. The one-eighth formula approach is based on a 45 day cash working capital allowance. The Staff found that the Company bills its customers after it renders service to them. The average bill contains thirty (30) days worth of service. It takes an additional five (5) days after rendering service for the utility to read the meters, edit bills, and perform re-reads, and then print and mail the bills out to its

customers. The utility then receives payment from its customers within about 15 days. The customer is allowed 25 days from the statement date to pay before late charges are assessed. Staff believes that the above justifies the use of 45 days in the formula. The Company has not conducted a lead lag study for this case. Staff adjusted Cash Working Capital for expenses which correct the books for a total adjustment of (\$28,804). The Company's adjustment is based on total O&M pro forma adjustments less the amortization for rate case and extraordinary expense for an adjustment of (\$796). Staff's adjustment appears to be more logical. Accordingly, we adopt Staff's adjustment.

(Q) Customer Growth

Customer growth was updated by Staff to February 2002 to reflect adjustments made outside the test year. See Hearing Exhibit 5, Exhibit A-2. At February 2002, water customers amounted to 3,200 and sewer was 2,838. Staff then used a formula to compute customer growth. Staff computed average customers using the beginning and ending customers divided by 2. End of the period customers minus average customers divided by average customers was used to compute the customer growth factors of 1.81% for water and 2.64% for sewer. These factors are then applied to net operating income which computes growth for revenue and expenses. The Company proposed a revenue customer growth adjustment by computing the growth in number of bills times the average bill for an adjustment to water revenue of \$2,762 and sewer revenue of \$957. We adopt Staff's adjustment and reject the Company's adjustment. We believe that the Staff's methodology leads to a more exact result than the Company's methodology, which is based on an average bill for one of its factors.

(R) Gross Receipts Taxes

Both Staff and Company propose to true-up per book gross receipts taxes. Staff verified per book gross receipts taxes of \$45,128. Staff then computed gross receipts taxes based on adjusted revenues of \$3,919,244 times a gross receipts tax rate of .011206749 to arrive at adjusted gross receipts taxes of \$43,922. Staff subtracted the per book amount of \$45,128 for Staff's adjustment of (\$1,206). The Company proposed to adjust gross receipts taxes by \$44,144 by using as adjusted revenue of \$3,922,964 times a gross receipts factor of 1.12528%. The Company did not subtract per book gross receipts from this amount. We adopt Staff's adjustment, since it appears to have been calculated utilizing the proper factors.

(S) Y2K Compliance

Staff found during its audit that the account for programming services had increased considerably over the previous year. This increase in expenses was due to making the Company's computer system Y2K compliant. Staff normalized the test year by amortizing these expenses over a 5-year period. The total expenses amounted to \$18,722 for the Y2K upgrade and training. This amount is amortized over 5 years for the allowed expense of \$3,744 less the per book amount of \$18,721 for Staff's adjustment of (\$14,977). We adopt the adjustment.

(T) Non-operating Refund

Both Staff and Company propose to remove the effects of a non-operating refund made to US Cable Company during the test year. The total refund amounted to \$1,000

(\$500 for sewer and \$500 for water). The water adjustment increased revenue and the sewer adjustment decreased expenses.

(U) Tap Fees

Both Staff and Company propose to remove tap fees from revenue and expenses. Tap fees amounted to \$42,625 for water, \$41,125 for sewer and \$83,750 for combined operations. Staff and Company removed the same amount from expenses. This adjustment is made to properly match revenue and expenses, since tap fee revenue should equal the cost of the tap. Staff also capitalized such tap fees and made an offsetting adjustment to Contributions in Aid of Construction. Therefore, Staff allowed no depreciation expense. This is also a proper adjustment.

(V) Miscellaneous

Staff proposes to eliminate legal fees of (\$204) associated with the Eugenia Avenue sewer main extension project. In Docket No. 97-497-S, Order No. 98-149, dated February 25, 1998, the Commission approved a sewer main extension fee for Eugenia Avenue customers to cover such costs.

Both the Staff and the Company propose to recognize the effects of the proposed increase in revenues, to include gross receipts taxes on the proposed increase, and to compute income taxes on the proposed increase. Although differences in the Staff and Company's figures are not great, we hereby adopt Staff's adjustments for consistency with the rest of our holdings. We would also note that the Company's rebuttal testimony points to a reduction in revenue for the loss of two golf courses as customers in the amount of (\$101,217). We adopt this adjustment also.

Staff also proposed to increase customer growth for the effect of the proposed increase. Staff's methodology appears in Hearing Exhibit 5, and is calculated through the use of a specific customer growth formula. We adopt Staff's adjustment.

(W) Income Taxes

Staff computed income taxes on an as adjusted basis. Both Staff and Company used a blended tax rate of 37.30% (5% for state and 34% for federal). Staff used water and sewer operating revenue less expenses and synchronized interest expenses to compute income tax expense. The income tax expense for water operations was \$89,052 and (\$4,053) for sewer operations and \$84,999 for combined operations. Staff's adjustment is reasonable, and is therefore adopted.

(X) Plant Additions

Both Staff and Company propose to increase rate base for plant additions made after the test year through February, 2002. Staff verified a total of \$129,006 for plant additions. These include the cost of a gate and security system of \$3,433, the Surfwatch Pump Station Rehab Project totaling \$102,301, and the Headworks R & R Project totaling \$23,272. Staff computed depreciation expense of \$3,134 and adjusted accumulated depreciation for (\$3,134). The Company proposed to include \$160,000 in plant additions. The Company's proposal was based on estimated plant additions. We reject the Company's proposal, since it is merely an estimate, and adopt Staff's well-reasoned adjustment.

Based on the accounting and pro forma adjustments herein approved, to include additional rate case expenses of \$14,569 (\$43,707 amortized over 3 years), and for a

reduction in revenue of (\$101,217) for the elimination of two golf course customers, as reflected in the rebuttal testimony of the Company, the Company's appropriate Net Income for Return for the computation of an appropriate margin is \$568,989. The calculation of Net Income for Return is shown in Table A:

TABLE A

NET INCOME FOR RETURN – AS ADJUSTED

Operating Revenues	\$3,818,027
Operating Expenses	<u>3,260,462</u>
Net Operating Income	557,565
Customer Growth	<u>11,424</u>
Net Income for Return	<u>\$ 568,989</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF

FACT NOS. 12, 13, AND 14

Under the guidelines established in the decisions of Bluefield Waterworks and Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas, 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility “has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.” However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues “sufficient to assure confidence in the financial soundness of the utility and ... that are adequate under efficient and economical

management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.” Bluefield, supra, at 692-693.

Neither S.C. Code Ann. Section 58-5-240 (Supp. 2001), nor any other statute describes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in a historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the bases for determining just and reasonable rates. This method was recognized and approved by the South Carolina Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Company v. The Public Service Commission of South Carolina, 270 S.C. 590, 240 S.E. 2d 278 (1978).

For water and sewer utilities, the Commission may decide to use the “operating margin” as a guide in determining just and reasonable rates, instead of examining the utility’s return on its rate base. The operating margin is determined by dividing total income for return (or net operating income), minus interest expense, by the operating revenues of the utility.

The Commission finds that its use of the operating margin has resulted in fair rates to both the utility and the ratepayer. In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company’s proposed rates, and the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public

Service Commission, 280 S.C. 288, 312 S.E. 2d 257 (1984). The following Table indicates the Company's gross revenues for the test year under the presently approved rate schedules; the Company's operating expenses for the test year; and the operating margin under the presently approved schedules for the test year:

TABLE B
OPERATING MARGIN-AS ADJUSTED

Operating Revenues	\$3,818,027
Operating Expenses	<u>3,260,462</u>
Net Operating Income	557,565
Customer Growth	<u>11,424</u>
Net Income for Return	<u>\$ 568,989</u>
Operating Margin After Interest Expense of \$486,572	<u>2.16 %</u>

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interests of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding, including, among others: the revenue requirements for the Company, the price for which the Company service is rendered, as well as the proposed price, the quality of that service, and the effect of the proposed price upon the consumer.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing objective under which the rates are designed to discourage the wasteful use of public utility services while promoting all

use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates, (1961), p. 292.

The Commission considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Commission has also considered the impact of the proposed increase on the ratepayers of the Company. The Commission must balance the interest of the Company – the opportunity to make a profit or earn a return on its investment, while providing adequate water and sewer service – with the competing interest of the ratepayers – to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers.

In light of those factors as previously discussed, and based upon the record in the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 10.75 %, which requires annual operating revenue of \$4,440,027. The following Table reflects an operating margin of 10.75 %:

TABLE C

OPERATING MARGIN-AS APPROVED

Operating Revenues	\$4,440,027
Total Expenses	<u>3,495,718</u>
Net Operating Income	944,309
Customer Growth	<u>19,714</u>
Net Income for Return	<u>\$ 964,023</u>
Operating Margin After Interest Expense of \$486,572	<u>10.75 %</u>

This operating margin is supported by the testimony of Company witness Guastella. As stated by him, the operating margin must generate enough income to provide equity investors with a reasonable return on existing investment and to enable the utility to attract capital. We believe that a 10.75% operating margin meets that criteria, for the reasons stated in Mr. Guastella's testimony. We further believe that our operating margin is supported by the level of income and revenue determined after a thorough examination of the appropriate accounting and pro forma adjustments. Clearly, our approved operating margin falls within the range of approved operating margins by this Commission, and is within the range of reason for water and sewer utilities.

Intervenor Testimony

Russell A. Hissom, an accountant, testified on behalf of the Town of Kiawah Island. Hissom testified that the relationship between the Company and KRA, its parent, is not a typical "developer-utility" relationship. According to Hissom, a typical relationship would be where the developers bear the cost of water and sewer plant infrastructure and include those costs in the cost received for the property being sold. The plant infrastructure is then contributed at no cost to the utility providing service in that service territory. The utility is responsible for future maintenance and eventual replacement of that plant. These costs are recovered from ratepayers through rates for recovery of operation and maintenance and depreciation expenses and return on rate base, or an operating margin.

Hissom also complained about so-called "unidentified assets," transactions involving fire hydrants, and other matters upon which this Commission has already ruled

on repeatedly in past Orders. We did not find arguments regarding these matters credible before, and we do not find them credible now. Hissom also makes unconvincing arguments regarding land leases and the possible use of impact fees. We do agree that the Company has not established a methodology to determine the costs that should be allocated from KRA to the Company for purposes of the proposed management fee.

Hissom cites five issues that should be addressed before any rate increase is granted to the Company.

Company witness Guastella filed reply testimony to Hissom's. Guastella states that Hissom's description of the typical developer/utility relationship is inaccurate. Hissom ignores the fact that real estate is sold at market value, and the costs a developer incurs merely determine its profits in an unregulated, high risk business. The creation of Kiawah is typical, according to Guastella in comparison to the hundreds of developer-related utilities that he regulated and for which he provided consulting services. While a portion of the cost of certain assets may be contributed in some instances to the utility, there is no regulatory or economic basis upon which to force contributions if the utility rates are to be fully compensatory. There is no requirement that the entire utility plant infrastructure be contributed and only in the future would the utility earn a return on the utility plant after it has been replaced. Nor is Guastella aware of any investor-owned utility that has charged impact fees on undeveloped property. Guastella addresses also the remainder of Hissom's recommendations. We agree with Guastella. We believe that Hissom's testimony has no basis in fact, and we therefore adopt the position of the Company, for the reasons cited in Guastella's reply testimony.

Walter T. Cuthbert also testified on behalf of the various golf companies. Cuthbert opposes the proposed increases in Rate Schedule 6 and the establishment of Rate Schedule 8. Cuthbert objects to the proposed increase in availability fees in Rate Schedule 6 and find Rate Schedule 8 “punitive.”

Company witness Guastella states that Cuthbert presents no cost analysis, and that his position is contrary to the establishment of an equitable recovery of costs from the various customer classes. The Standby Rate is designed to have the golf courses that would sporadically impose major water demands on the Company’s facilities, pay for the costs of having those facilities available to do so. Otherwise, according to Guastella, all other customers would subsidize the cost of providing such service to those golf courses. We agree with Guastella’s reasoning and reject that of Mr. Cuthbert for the reasons cited in Guastella’s testimony.

EVIDENCE AND CONCLUSIONS FOR FINDINGS

OF FACT NOS. 15 AND 16.

The Commission has examined the testimony of all parties with regard to rate design in this matter, and we will herein explain our conclusions and our reasoning therefor.

The testimony of Company witness Guastella addressed proposed tariff changes. For the most part, the Company maintained its existing rate structure, including the step up rate blocks. The Company did eliminate the minimum water allowance of 2,000 gallons per month in order to establish a service charge and usage rate that is more typical of industry practice. We approve this change.

Further, the Company proposed a new rate schedule denominated Schedule 8- Standby Service-Golf Courses. Guastella noted that the reason for the Standby Service rates is to provide for the recovery of the cost of having facilities available to meet potentially large water demands of a customer, in this case a golf course that has its own alternative source of supply and does not take water from the Company on a continuous basis. When regular customers, including large use customers, take water on a continuous basis, the cost of meeting their demands, are recovered over the course of billing for a year under the tariff schedule, which is designed for such circumstances. If, however, a potential large user of water, such as a golf course, is not taking water service from the Company on a continuous basis, but would only occasionally impose a large demand for water on the Company's system, the cost of having facilities available on a year-round basis will not be recovered under the Company's existing rate schedules. Without a special rate - Standby Rate - to recover the full cost of meeting such occasionally large water demands, the existing customers would, in effect, be subsidizing the cost of the facilities necessary to meet that demand.

The Standby Rate has two components: a demand charge and a usage charge for the actual water used by a Standby customer. Any golf course with its own alternate supply that would rely on the Company to meet its water demands in the event its own alternate source became unavailable, would be required to enter into an agreement with the Company for Standby Service. The level of the demand charge would be stated in that agreement.

We have examined the need for a Standby Rate and conclude that such a rate is needed under the circumstances cited by witness Guastella. There appears to be at least one potential golf course customer for the rate.

The Company also requests the ability to pass through its purchased water and other operating and maintenance costs to its customers. (See discussion above.) We approve the passthrough mechanism of the cost of water, but not the operating and maintenance expense. However, the Company is required to provide at least 60 days advance notice of the increase to the Commission. This could prevent implementation of the increase if the Commission finds any irregularities, upon examination.

With regard to our overall rate design, we have spread the approved increase equally and proportionally over all classes of customers for both water and sewer as shown in Appendix A to this Order. The only exception to this is our granted water consumption charge under Rate Schedule No. 1 Residential Service. The Company proposed and we granted elimination of payment for 2,000 gallons of water along with the base facilities charge per month in that Schedule. The consumption charge now includes a charge for all consumption up to 11,000 gallons per month. Because of this change, the initial consumption charge for residential customers is adjusted from \$2.10 per 1000 gallons for all consumption over 2,000 gallons per month and up to 11,000 gallons per month to \$2.02 per 1,000 gallons for all consumption of water up to 11,000 gallons per month. Except for that one adjustment, the rate increase granted was spread equally among all customers.

The rates as contained in Appendix A to this Order are approved and effective for service rendered on or after the date of this Order. We believe that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable attainment of the Commission ratemaking objectives in light of applicable statutory safeguards. Under our new schedule of approved rates, an average single family residential homeowner that uses 22,000 gallons per month, the water bill increase would be \$8.50, from \$65.50 to \$74.00. This is an increase of 12.9%. The sewer increase would be \$5.98, from \$23.17 to \$29.15. This amounts to an increase of 25.8%.

IT IS THEREFORE ORDERED THAT:

1. The proposed schedule of rates and charges as filed in the Company's Application is found to be unreasonable, and is hereby denied.
2. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after the date of this Order. The schedule is deemed filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2001).
3. The Company shall maintain its books and records in accordance with the NARUC Uniform System of Accounts as adopted by this Commission.
4. The Company shall notify each customer in each class of the customers' increase in rates with the first bill that includes the new increase in rates made subject to this Order.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

KIAWAH ISLAND UTILITY, INC.

31 Sora Rail Road
Johns Island, S.C. 29455
(843) 768-0641

APPENDIX A

FILED PURSUANT TO DOCKET NO. 2001-164-W/S - ORDER NO. 2002-285
EFFECTIVE DATE: APRIL 18, 2002

RATE SCHEDULE NO. 1 RESIDENTIAL SERVICE

AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable to any residential customer for any purpose.

Water Service Charges

A.	Base Facilities Charge	
	5/8" meter	\$25.38 / mo.
	3/4" meter	\$38.07 / mo.
	1" meter	\$63.45 / mo.
	1 1/2" meter	\$126.90 / mo.
	2" meter	\$203.04 / mo.
	3" meter	\$444.14 / mo.
	4" meter	\$1,274.65 / mo.

Base Facilities Charge for water service with meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$25.38 per mo.
20 gpm

B.	Consumption Charge	
	All up to 11,000 gals./mo.	\$2.02 /1000 gal.
C.	Excess Consumption Charge #1	\$2.40 /1000 gal.
	All over 11,000 gal./mo. and up to 50,000 gal./ mo.	
D.	Excess Consumption Charge #1	\$2.63 /1000 gal.
	All over 50,000 gal./mo.	

Sewer Service Charges

A.	Base Facilities Charge	
	5/8" water meter	\$22.66 / mo.
	3/4" water meter	\$34.00 / mo.
	1" water meter	\$56.66 / mo.
	1 1/2" water meter	\$113.31 / mo.
	2" water meter	\$181.30 / mo.
	3" water meter	\$396.60 / mo.
	4" water meter	\$1,226.17 / mo.

Base Facilities Charge for sewer service where water service is through meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$22.66 per mo.
20 gpm

B.	Consumption Charge based on Water Usage	
	All up to 11,000 gals./mo.	\$0.59 /1000 gal.

Tap-In Fees

Water Tap-In Fee	\$500.00
Sewer Tap-In Fee	\$500.00

The tap-in fee provides for installation of the normal size residential meter of 5/8" by 3/4". Where the customer requests a larger meter, the Company will apply the tap-in schedule for larger meters as listed in the Commercial Service Schedule No. 2.

RATE SCHEDULE NO. 2 COMMERCIAL SERVICE

AVAILABILITY

- Available within the Company's service area.

APPLICABILITY

- Applicable to any commercial or master metered residential customer for any purpose except hotel or motel use (see Rate Schedule No. 3).

Water Service Charges

A.	Base Facilities Charge	
	5/8" meter	\$25.38 / mo.
	3/4" meter	\$38.07 / mo.
	1" meter	\$63.45 / mo.
	1 1/2" meter	\$126.90 / mo.
	2" meter	\$203.04 / mo.
	3" meter	\$444.14 / mo.
	4" meter	\$1,274.65 / mo.

Base Facilities Charge for water service with meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$25.38 per mo.
20 gpm

B.	Consumption Charge	\$2.63 /1000 gal. for all consumption
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Sewer Service Charges

A.	Base Facilities Charge	
	5/8" water meter	\$22.66 / mo.
	3/4" water meter	\$34.00 / mo.
	1" water meter	\$56.66 / mo.
	1 1/2" water meter	\$113.31 / mo.
	2" water meter	\$181.30 / mo.
	3" water meter	\$396.60 / mo.
	4" water meter	\$1,226.17 / mo.

Base Facilities Charge for sewer service where water service is through meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$22.66 per mo.
20 gpm

B.	Consumption Charge based on Water Usage	\$2.27 /1000 gal. for all consumption
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Tap-In Fees

	<u>Water Tap-In Fee</u>	<u>Sewer Tap-In Fee</u>
5/8" meter	\$500.00	\$500.00
3/4" meter	\$750.00	\$750.00
1" meter	\$1,250.00	\$1,250.00
1 1/2" meter	\$2,500.00	\$2,500.00
2" meter	\$4,000.00	\$4,000.00
3" meter	\$8,750.00	\$8,750.00

Water tap-in fee and sewer tap-in fee for water and sewer service where the water meter is larger than 3" shall be:

Maximum recommended meter capacity (gpm) x \$500.00
20 gpm

RATE SCHEDULE NO. 3 HOTEL AND MOTEL SERVICE

- AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable to all hotel and motel customers for any purpose.

Water Service Charges

Base Facilities Charge	\$10.20 /mo./room
All Consumption	\$2.63 /1000 gal.

Sewer Service Charges

Base Facilities Charge	\$9.06 /mo./room
All Consumption	\$2.27 /1000 gal.

Tap-In Fees

Water Tap-In Fee	\$220.00 /room
Sewer Tap-In Fee	\$220.00 /room

RATE SCHEDULE NO. 4 IRRIGATION SERVICE

- AVAILABILITY - Available within the Company's service area. The Company reserves the right to limit or reduce the irrigation service available when, in its sole judgment, its water system conditions require such restrictions.

- APPLICABILITY - Applicable only to customers who anticipate substantial potable water use which will not be returned to the Company's wastewater treatment system such as irrigation. Such water consumption shall be metered separately from any water use supplied under other rate schedules.

Water Service Charges

A.	Base Facilities Charge	
	5/8" meter	\$25.38 / mo.
	3/4" meter	\$38.07 / mo.
	1" meter	\$63.45 / mo.
	1 1/2" meter	\$126.90 / mo.
	2" meter	\$203.04 / mo.
	3" meter	\$444.14 / mo.
	4" meter	\$1,274.65 / mo.

Base Facilities Charge for water service with meters larger than 4" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$25.38 \text{ per mo.}}{20 \text{ gpm}}$$

B.	Consumption Charge	
	All up to 50,000 gals./mo.	\$2.40 /1000 gal.
C.	Excess Consumption Charge	\$2.63 /1000 gal.
	All over 50,000 gal./mo.	

Tap-In Fees

5/8" meter	\$500.00
3/4" meter	\$750.00
1" meter	\$1,250.00
1 1/2" meter	\$2,500.00
2" meter	\$4,000.00
3" meter	\$8,750.00

Water tap-in fee where the water meter is larger than 3" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$500.00}{20 \text{ gpm}}$$

RATE SCHEDULE NO. 5 FIRE HYDRANT SERVICE

<u>AVAILABILITY</u>	- Available within the Company's service area.
<u>APPLICABILITY</u>	- Applicable to fire hydrants connected to Company water mains.

Water Service Charges

\$100 per hydrant per year payable semiannually in advance for fire fighting service.

When temporary water service from a hydrant is requested by a contractor or others, a meter will be installed and the charge will be:

\$8.00 for each day of use, PLUS \$2.80/1000 gals for ALL water used, PLUS a \$50 security deposit.

RATE SCHEDULE NO. 6 GOLF COURSE IRRIGATION

<u>AVAILABILITY</u>	- Available within the Company's service area.
<u>APPLICABILITY</u>	- Applicable for golf course irrigation where the customer agrees to take as a minimum quantity the treated effluent from the wastewater treatment plant.

Water Service Charges

A.	Effluent water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$3,762.97 / mo.
	Consumption	\$0.17 /1000 gal.
B.	Deep well water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$788.58 / mo.
	Consumption	\$0.20 /1000 gal.
C.	Potable water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$603.45 / mo.
	Consumption	\$2.63 /1000 gal.

RATE SCHEDULE NO. 7 FIRE LINE SERVICE

<u>AVAILABILITY</u>	- Available within the Company's service area.
<u>APPLICABILITY</u>	- Applicable for private fire lines.

Water Service Charges

Base Facilities Charge	
2" Line	\$6.00 / mo.
3" Line	\$11.00 / mo.
4" Line	\$19.00 / mo.
6" Line	\$38.00 / mo.

Tap-In Fees

2" Line	\$4,000.00
3" Line	\$8,750.00

Water tap-in fee where the service is larger than 3" shall be based on the tap-in fee schedule as listed in the Commercial Service Schedule No. 2.

RATE SCHEDULE NO. 8
STANDBY SERVICE-GOLF COURSES

Available For

This tariff sets forth rates and terms and conditions of Standby Service applicable to any golf course customer that has an Alternative Source of Supply. For purposes of this tariff, an Alternative Source of Supply shall mean any external or internal source of water supply (or combination of such sources of supply) other than the Company, including an expansion of, or an addition to, an existing source of water supply, which (I) has capacity available to provide the Standby Customer with at least 100,000 gallons of water per day on average; and (II) supplies or is intended to supply water which would, to the extent that the source of supply becomes unavailable or inadequate to meet the customer's needs, be otherwise provided by the Company. Each Standby Customer is required to enter into a Standby Service Contract and pay the charges applicable to Standby Service in accordance with the provisions of this tariff.

Amount of Standby Service

The Standby Service Contract shall identify the Standby Customer's Contractual Maximum Daily Standby Demand, i.e., the maximum daily amount of water that the Company is obligated to provide as a standby source of supply in the event that all or a portion of the Standby Customer's Source(s) of Supply becomes unavailable to the Standby Customer or is unable to meet the Standby Customer's needs. The Contractual Maximum Daily Standby Demand shall be equal to either (I) the total capacity of the Customer's Alternative Source(s) of Supply or (II) such other reasonable amount which the Company and Standby Service Customer may agree upon. The Contractual Maximum Daily Standby Demand shall be subject to adjustment in accordance with the above provision in the event that the total capacity of the Standby Customer's Alternative Source(s) of Supply is increased or decreased.

Demand Charges

Each Standby Customer shall pay for each billing period a Monthly Demand Charge of \$14.20 per 1,000 gallons of Contractual Maximum Daily Standby Demand, subject to an additional charge for standby usage in excess of that demand, as specified below.

Usage Charges

In addition to the monthly Demand Charge specified above, each Standby Customer shall pay the then in effect consumption rates for each source of golf irrigation applied to the amount of that source actually used for the billing period (whether or not for standby purposes). For all usage (whether or not for standby purposes) in excess of the amount consistent with the Contractual Maximum Daily Demand, the Standby Customer shall be charged for usage in accordance with Usage Rates contained in the otherwise applicable Metered General Water Service Schedule of Rates.

RATE SCHEDULE NO. 8
STANDBY SERVICE-GOLF COURSES

Requirements For Service Under Tariff

Each customer which acquires or adds an Alternative Source(s) of Supply and, as a result becomes a Standby Customer as defined in this tariff shall, within ten days of doing so, notify the Company of the total amount of the capacity of the Standby Customer's Alternative Source(s) of Supply, and enter into Standby Service Contract in accordance with the terms of this tariff.

Each Standby Customer which is taking service under Standby Service Contract pursuant to this tariff and takes actions which increase the capacity of the Standby Customer's Alternative Source(s) of Supply shall, within ten days of doing so, notify the Company of the resulting total capacity of the Customer's Alternative Sources of Supply, at which time the Contractual Maximum Daily Standby Demand under contract shall be subject to adjustment in accordance with the terms of this tariff.

Charge For Usage In Excess of Contractual Demand

The following provision applies only to each Standby Customer whose Contractual Maximum Daily Demand is less than the total capacity of its Alternative Source(s) of Supply. If and when the maximum daily amount of standby water actually used by such a Standby Customer (the "Actual Maximum Daily Standby Demand") exceeds that customer's then existing Contractual Maximum Daily Standby Demand: (I) the Actual Maximum Daily Standby Demand may, at the election of the company, become that customer's new Contractual Maximum Daily Standby Demand beginning with the month in which the Actual Maximum Daily Standby Demand is established and (II) the Standby Customer shall be subject to an Excess Usage Charge in addition to all other charges under this tariff. The Excess Usage Charge shall be determined by applying the Monthly Demand Charge per thousand gallons to the number of gallons calculated by multiplying the difference between the Actual Maximum Daily Standby Demand and the existing Contractual Maximum Daily Standby Demand by the lesser of (I) 24 months or (II) the number of months during the period beginning with the month for which the existing Contractual Maximum Daily Demand first became effective and ending with the month immediately preceding the month in which the Actual Daily Standby Demand was established.

Requirement For Standby Customers Which Fail To Enter Into Standby Service Contract

A Customer qualifying for Standby Service but which has not entered into Standby Service Contract with the Company in accordance with the requirements of the tariff, and requires water from the Company in an amount equal to or greater than 100,000 gallons per day, may obtain such water from the Company on the following conditions: (I) the customer shall enter into a Standby Service Contract pursuant to the terms and conditions of this tariff and (II) the customer shall pay an Excess Usage Charge, which shall be determined by applying the Demand Charge per thousand gallons to the number of

RATE SCHEDULE NO. 8
STANDBY SERVICE-GOLF COURSES

gallons calculated by multiplying the maximum daily demand required by the lesser of (I) 24 months (II) the number of months during the period beginning with the month following the effectiveness of this tariff in which the customer first met the definition of Standby Customer and ending with the month in which the customer enters into a Standby Service Contract.

**STANDBY SERVICE AGREEMENT
GOLF COURSE CUSTOMER
RATE SCHEDULE NO. 8**

DATE OF REQUEST:

NAME OF STANDBY CUSTOMER:

If an individual golf course has an alternate source of water and does not depend on the combined sources provided by the Company, yet desires the Company to make available a specific quantity of water for reliability purposes, it must enter into this Standby Service Agreement.

GOLF COURSE SERVICE ADDRESS:

Contractual Maximum Daily Standby Demand in Thousand Gallons: _____

Monthly Demand Charge (Standby Demand x \$14.20/thousand) \$ _____

Standby customer agrees to pay the monthly demand charge as shown above as well as any additional applicable charges as described in Rate Schedule #8.

Signature of Standby Customer

Notarized By: _____

Accepted by the Company: _____

PURCHASED WATER ADJUSTMENT

Kiawah Island Utility, Inc. ("Company") purchases its potable water from the St. John's Water Company ("St. John's"), which in turn purchases the water from the Commissioners of Public Works of the City of Charleston ("CPW"). Whenever CPW increases the price of water sold to St. John's, the increase in price is passed through to the Company pursuant to the water purchase agreement between the Company and St. John's.

The water purchase agreement also provides, as part of the purchased water price, a pro-rata share of St. John's annual operation and maintenance costs to be charged to the Company. Therefore, the Company's revenue requirement for purchased water is made up of the water unit price per thousand gallons and the operation and maintenance costs charged by St. John's.

Accordingly, whenever there is a price adjustment for the purchase of potable water to Kiawah Island Utility, Inc. by the St. John's Water Company, the following billing adjustment shall be made by the Company to its customer rates:

1. Billing Adjustment

In the event that St. John's adjusts (whether an increase or decrease) the unit price per 1,000 gallons and/or the operation and maintenance charges related to the purchase of potable water, the following billing adjustment practice would apply:

- (a) If the unit price is adjusted the cost change per 1,000 gallons would be passed through to the customers as an adjustment in like amount to the consumption charge on their water bill.

Example: The unit price of purchased water is increased by two cents per 1,000 gallons. The consumption charge on the customer's bill would reflect a two cent per 1,000 gallon increase.

- (b) Operation and maintenance charges will be examined in the Company's next rate proceeding.

2. Notification

Any special billing adjustment shall not be billed until the following conditions are met:

- (a) The Company shall furnish the South Carolina Public Service Commission satisfactory proof of the basis for the adjustment and the billing method to be utilized at least sixty (60) days prior to its proposed effective date.
- (b) The Company shall furnish thirty (30) days prior written notice to the customers affected by the Purchased Water Adjustment advising them of the basis for the billing adjustment and its effective date.

**CHARGES FOR SERVICE DISCONTINUANCE, RECONNECTION
AND OTHER MISCELLANEOUS SERVICE CHARGES**

1. When a customer requests discontinuance of service for reasons other than major repair, maintenance, or construction at the service address or for the transfer of possession or ownership of the service address, the Company may charge the equivalent of three months of basic facilities charges for both water and sewer service and require payment of such charges when for any reason service is restored to that particular customer.
2. Temporary discontinuance of service for such purposes as maintenance or construction will be made and the Company may charge the customer the actual cost plus 25%.
3. Whenever service is disconnected for violation of rules and regulations, nonpayment of bills or fraudulent use of service, the Company may make a charge of \$25.00 for water and \$100.00 for sewer before service is restored.
4. Whenever service has been disconnected for reasons other than set forth in (3) above, the Company shall have the right to charge a \$25.00 reconnection fee to restore service.
5. Delinquent Notification Fee - \$10.00. A fee of \$10.00 shall be charged each customer to whom the Company mails a notice of discontinuance of service as required by the Commission rules prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
6. Customer Account Charge - \$25.00. One-time fee charged to each new account to defray costs of initiating service.
7. Return Check Charge (NSF) - \$20.00.
8. Backflow Monitoring - \$0.20 per month. A fee of \$0.20 per month shall be charged each customer to reimburse the Company for Backflow Monitoring required by DHEC regulations.
9. DHEC Charge. If the South Carolina Department of Health & Environmental Control charges the Company an assessment based on customer units served by the Company, the Company may bill its customers for the applicable unit cost of that assessment. The charge shall be identified as a separate billed item and included in the total of the service billing.